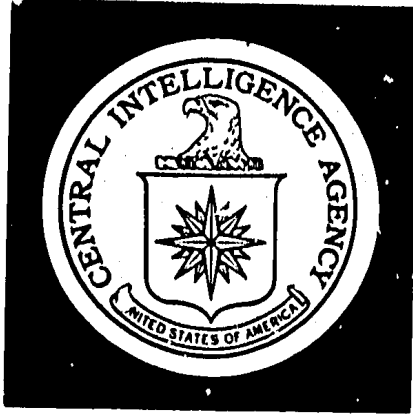


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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Recent Developments In Soviet Hard Currency Payments

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
July 1970

INTELLIGENCE MEMORANDUM

Recent Developments
In Soviet Hard Currency Payments

Introduction

The USSR attaches considerable importance to its hard currency position because of its need to import equipment and technology that are in short supply from the developed Western countries. This memorandum briefly describes developments in Soviet hard currency trade and payments during 1969 and probable trends in 1970.

Hard Currency Trade

1. The USSR incurred a hard currency trade deficit of about \$320 million in 1969 (see Table 1), the largest since 1964, when the Soviet Union was experiencing a series of deficits resulting from large wheat purchases in 1963-66. The deficit was the second consecutive one following the unusual hard currency surplus in 1967. Also for the second consecutive year, Soviet imports from hard currency countries grew much more rapidly than exports. The rise of almost \$450 million was even greater than that of 1968. Meanwhile, exports were up by about \$200 million, following the trend of recent years.

2. Imports from Western Europe rose sharply, almost \$260 million, and this rise was accompanied by an increase of more than \$175 million in imports from overseas countries -- principally the United States and Japan. Exports to Western Europe increased

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It was prepared by the Office of Economic Research.*

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Table 1

Soviet Hard Currency Trade

Million US \$				
<u>Year</u>	<u>Exports</u>	<u>Imports</u>	<u>Turnover</u>	<u>Balance</u>
1960	744	1,017	1,761	-273
1961	866	1,060	1,926	-194
1962	917	1,181	2,098	-264
1963	960	1,278	2,238	-318
1964	1,011	1,545	2,556	-534
1965	1,326	1,544	2,870	-218
1966	1,482	1,746	3,228	-264
1967	1,691	1,600	3,291	+91
1968	1,893	1,988	3,881	-95
1969	2,105	2,425	4,530	-320

by \$180 million, but those to overseas areas showed only a relatively slight rise of about \$30 million (see Table 2). Most of the increase in imports from Western Europe occurred in trade with West Germany and Italy -- more than \$100 million each. In fact, the traditional Soviet surplus with Italy developed into an \$85 million deficit in 1969 and the normally modest deficit with West Germany rose to more than \$100 million. Trade with France also showed a deficit of about \$180 million. These increases more than offset the substantial growth in the Soviet trade surplus with the United Kingdom, which was doubled at \$187 million, and with the Netherlands, which went from \$2 million to \$87 million.

3. Among a number of other factors contributing to the Soviet deficit in 1969 was the increase in trade with the United States, which went from \$100 million to \$176 million, with Soviet imports more than doubling at \$117 million. Also contributing to the deficit were stepped-up purchases from Japan while exports to that country were declining (a reduction from the Soviet surplus in 1968 of more than \$200 million to one of less than \$95 million). However, a decline of more than \$90 million in imports from Canada as a result of the absence of wheat imports eased somewhat the rise in the Soviet deficit with overseas countries.

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Table 2

Distribution of Soviet Hard Currency Trade
 with Western Europe and Overseas Countries a/

Million US \$

<u>Geographic Area</u>	<u>Exports</u>	<u>Imports</u>	<u>Turn- over</u>	<u>Balance</u>
1966				
Western Europe	1,094	755	1,849	+339
Overseas areas	388	991	1,379	-603
<i>Total</i>	<i>1,482</i>	<i>1,746</i>	<i>3,228</i>	<i>-264</i>
1967				
Western Europe	1,163	1,015	2,173	+148
Overseas areas	528	585	1,113	-57
<i>Total</i>	<i>1,691</i>	<i>1,600</i>	<i>3,291</i>	<i>+91</i>
1968				
Western Europe	1,282	1,363	2,645	-81
Overseas areas	611	625	1,236	-14
<i>Total</i>	<i>1,893</i>	<i>1,988</i>	<i>3,881</i>	<i>-95</i>
1969				
Western Europe	1,462	1,622	3,084	-160
Overseas areas	643	803	1,446	-160
<i>Total</i>	<i>2,105</i>	<i>2,425</i>	<i>4,530</i>	<i>-320</i>

a. The USSR's principal trading partners in "over-seas areas" are the United States and Japan.

4. Machinery and equipment made up a significant part of the increase in imports from hard currency countries, rising by an estimated \$150 million to a level of more than \$900 million. Deliveries from Italy under the Fiat contract were largely responsible for the substantial increase in imports from that country. Increased imports of steel

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(including pipe) -- chiefly from West Germany, France, and Japan -- also were a significant factor, rising by perhaps \$75 million. The \$200 million increase in exports was achieved in spite of the apparent drop in earnings from exports of oil in 1969. Western trade data indicate a substantial increase in Soviet exports of diamonds and platinum group metals, mainly to the United Kingdom.

Developments in Payments

5. Developments in the nonmerchandise elements of the current account were generally favorable. Income from Western tourism seemed to have recovered from its decline in 1968 and may have amounted to as much as \$55 million -- up about \$10 million. These earnings more than offset the interest payments on medium-term and long-term credits, which are estimated to have increased by some \$15 million to about \$50 million. For the first time, the USSR is believed to have achieved a net surplus in its transportation account, earning about \$10 million in 1969. Taken together, nonmerchandise receipts in the Soviet current account exceeded payments, but the surplus was insignificant. The entire current account deficit was thus on the same order of magnitude as the trade deficit.

6. The hard currency deficit again was financed through the use of credit facilities. Medium-term and long-term credits, used to finance many of the imports of machinery and equipment from the West, were drawn down at the rate of about \$500 million in 1969 -- almost \$100 million more than in 1968. Repayments and interests were up by about \$50 million to roughly \$300 million. Net credits were thus on the order of \$200 million in 1969, compared with about \$175 million in 1968. As usual, short-term credit facilities also were employed. No noticeable changes were apparent, however, in the Soviet short-term position, which generally shows the USSR as a net debtor, especially in Eurodollars.

7. The USSR in 1969 continued to add to its gold reserves. For the first time in nearly two decades, there were no recorded sales of Soviet gold to the West. Gold production was estimated at about \$220 million in 1969 and domestic consumption at about \$40 million; as a result, the USSR evidently

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added about \$180 million in gold to its reserves. Such reserves are believed to have reached \$1.6 billion at the close of 1969.

Prospects for 1970

8. Scattered data on Soviet trade with the West in 1970 are inconclusive, but indications are that hard currency trade will continue to grow. Exports are unlikely to show any unusual rise, but imports should continue the recent strong growth. Imports of machinery and equipment, which increased an average of more than \$100 million a year during 1967-69, are expected to remain at about the same level as in 1969 despite the slowdown in orders in 1969. Certain deliveries held up on Soviet request in 1969 probably will offset any loss in current orders. Imports of pipe should continue to rise in light of the natural gas-pipe contracts signed with Italy and West Germany and the expected signing of a similar deal with France. Imports of steel should also continue high, and those of natural rubber are expected to remain at about the level of \$100 million. In addition, the USSR has contracted for \$130 million worth of Canadian wheat and at least \$50 million worth of Western meat products for delivery in 1970.

9. Other elements in the Soviet balance of payments are expected to remain about the same in 1970. Tourism and transportation should continue the recent improvement, but the favorable balance in these elements would still be insignificant in terms of the overall current account. Net drawings of medium-term and long-term credits are expected to rise as the Soviet Union is increasingly using long-term credits to finance the purchases of Western technology and equipment as well as pipe.

10. In 1970 the Soviet Union probably will again have a hard currency deficit, in part because of the expected large imports of machinery and pipe and the import of almost \$200 million worth of Western foodstuffs. At the same time, the USSR is expected to continue to have difficulty in expanding its traditional exports and in finding new ones. Oil exports, traditionally the largest hard currency earner, are expected to decline slightly. Other traditional export items such as lumber and cotton are not expected to increase substantially. Exports

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of diamonds probably will not experience as rapid a growth as in recent years, because of substantially reduced demand this year. The deficit will again be financed through the use of credits. Although gold sales cannot be ruled out completely, such sales are highly unlikely in view of the evident desire of the USSR to further add to its reserves. If no gold sales occur, the USSR will accumulate roughly \$200 million in gold, bringing reserves to about \$1.8 billion by the end of 1970.

Conclusions

11. The Soviet deficit in hard currency trade in 1969 was about \$320 million, the largest since 1964. This was a repeat of the unfavorable performance of 1968, and once again it resulted from a large increase in imports -- almost \$450 million -- while exports continued to increase only by the same amount as in 1967-68 -- \$200 million. As in recent years, the deficit was financed through both short-term and long-term credits, and for the first time in many years the Soviet Union had no known sales of gold. Once again the Soviet gold reserve was increased, with reserves reaching an estimated \$1.6 billion by the end of 1969.

12. Following the pattern of recent years, the largest increment in imports in 1969 consisted of machinery and equipment, and the leading Soviet suppliers again were West European. The increase in imports from the overseas areas, particularly Japan and the United States, was larger than anticipated.

13. The outlook for 1970 is for a continuation of a high level of imports and, thus, for a continued deficit. Imports of most items are expected to remain at close to present levels, and the USSR has contracted for Canadian wheat deliveries of at least \$130 million in 1970 and meat deliveries of at least \$50 million. Large increases are also expected in deliveries of pipe from Western Europe, but these will be financed by long-term credits. Exports, meanwhile, are not expected to show any unusual increases in 1970. Once again, the USSR probably will finance the deficit without selling gold and will raise its gold reserves to about \$1.8 billion.